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CENTRAL INTELLIGENCE AGENCY

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## Future of the Automotive Industry

1. There are several reasons why the development of an automotive industry in China will come slowly. Most important of these is the need for other industries. No company can build an automobile without the help of a dozen or so other well-established companies. Sub-contracting is absolutely essential. Any effort by the Communists to develop an automotive or aircraft industry without first developing industry as a whole will fail. Where the Nationalist government was slow to subsidize industry, however, it seems that the Communists are quick to do so, and subsidization is essential to the building-up of industries in Far Eastern countries. Let me take pre-World War II Japan as an example. The Japanese government, in searching for a way to build up domestic automobile production to compete with foreign imports, found that it had to subsidize not only the maker but the purchaser of the car. In other words, as a reward for buying a native car, the buyer was granted a big price cut. Then, as the industry began to pick up speed, the subsidies to buyer and manufacturer became smaller and smaller. Just prior to the war, the Chinese government was planning on taking similar action on a much smaller scale. After the war, of course, it lacked the funds. It would seem possible to me that the present Communist government might encourage domestic manufacture of automobiles if it felt that there were a large enough market. The following factors, however, limit the Chinese market:
  - a. Lack of skilled labor. Everyone wants to be a businessman or merchant. The existing skilled factory labor is probably being utilized in military production. In 1947 most factories were trying to set up training programs which would make factory work more attractive.
  - b. Road conditions. Until improvement of roads makes long-distance driving more feasible, the demand for cars will stay light.

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c. Restricted market. It is my guess that only government officials, military officers and plant managers can now afford or be entitled to automobiles. The Communist economy does not lend itself to automobiles for the civilian population.

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Existing Automotive and Internal-Combustion Engine Industry

2. [Redacted]

3. The Japanese, during their occupation of China, set up a factory in Tientsin for the manufacture of a sort of three-wheeled motorcycle truck with closed cab. [Redacted] The Chinese government took control of this factory after the victory and later sold it, [Redacted] to a private group.

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[Redacted] Since it is utterly impossible to manufacture motor vehicles in China at a profit, [Redacted] either the Chinese Communist government is spending a great deal of money to keep these plants in operation or [Redacted] they have [Redacted] closed down.

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4. [Redacted]

5. Concerning the manufacture of other types of engines, [Redacted] there was an aircraft engine plant built in caves in Yunnan [Redacted] which operated during the war.

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[Redacted] it was primarily an assembly plant.

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6. Shanghai is the logical place for the development of an automotive industry. First of all, being the largest city in China, it has enough manpower. Second, because of Chiao Tung University [Redacted] it has enough engineers. Third, it is a transportation center, being open to rail, sea and overland traffic. The main drawback, however, is that Shanghai produces nothing in the way of raw materials. It has been an industrial center in the past partly because raw materials were usually imported. With the recovery of Manchuria, it may be that some of its steel will become available to China if it is not all being diverted to the USSR. Tientsin, being closer to the iron and coal producing areas, is Shanghai's greatest threat to industrial leadership.

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Chiao Tung University

7. Chiao Tung University is worthy of mention here because its personnel and graduates will inevitably play a part in the development of Chinese internal combustion engine manufacture. Located in Shanghai, Chiao Tung is one of the foremost technical colleges in China. The only other college to compare with it, in fact, is Tsing Hua University in Peiping, which is much larger and not exclusively devoted to technical studies.

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Courses were given in the following subjects: mechanical engineering, civil engineering, chemical engineering, aeronautical engineering, textiles, naval architecture, business administration (concentrating on railroad administration) and science (physics, chemistry, mathematics.) About 1000 students were enrolled in 1947. The aeronautical engineering department was added after the war, and all its graduates were hired by the government. The student at Chiao Tung was traditionally offered three options for his major field of study: automotive engineering (automotive or aeronautical), locomotive engineering, industrial engineering. Widespread among the students was a feeling that the best students should go into engineering, the next best into basic sciences and the worst into business administration. Chiao Tung will probably continue under the Communists to provide the government with its best automotive and aeronautical engineers. Any attempt to establish a big automotive industry would lean heavily on this university.

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The Market of Public Transportation

8. There has always been a need for more and better vehicles in the public transportation system of every city in China, and it is possible that the Communist government will try to satisfy this demand through domestic manufacture. The Shanghai transportation system will necessarily be an example. There, before World War II, the Shanghai Tramway Company with a trolley and trolly and the Shanghai Omnibus Company with a bus fleet provided fairly a service with imported equipment. During the war, however, the Japs almost every bus of the Shanghai Omnibus Company aboard a ship for to a south Pacific port. The ship was torpedoed, and Omnibus was n get compensation. After the war Omnibus, being bankrupt, lost its and a private group quickly bought up over 100 US Army Dodge trucks itself as the Shanghai Transit Company. By lengthening the truck c mounting an aluminum body on each of the trucks, this company was a a haphazard fleet into commission. A few secondhand White school b also bought and put into use. The converted trucks were still the of bus transportation. It won't last for many more years. Considering that Shanghai probably the most modern transportation systems in China, it seems a certain there is a country-wide market for new buses. This seems to be the factor in the question of whether or not China will soon start prod own automobiles.

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